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	Tokyo Welcomes Bush Victory	1
	Japan's Business Leaders Expect Continued Trade Frictions	2
	Congressional Committees Shift	3
IN THIS ISSUE:	Oil Price Fall Has Ups And Downs	5
	Guessing The Future Of Japan's Car Export Limits	7
	Notes: Tax Reform; SDI Contracts	8

Tokyo Welcomes Bush Victory

Joining the international chorus of congratulations, the Japanese government welcomed the outcome of the November 8 U.S. presidential election and expressed confidence that "with the election of [George] Bush . . . Japan-U.S. relations will be further strengthened in the new era." Tokyo voiced concern, however, that the Democratic-controlled Congress would push harder for protectionist responses to bilateral trade frictions and increased Japanese foreign direct investment in the United States as well as for Japan to assume more of the defense burden. While acknowledging that Mr. Bush is expected to make every effort to uphold free trade principles, Tokyo's unspoken message appeared to be that the president-elect's skill in dealing with what may be a more aggressive legislature has yet to be demonstrated and, thus, is still open to question.

But there were only words of praise for the president-elect's diplomatic acumen. Prime Minister Noboru Takeshita reportedly stated that one of Mr. Bush's positive achievements as vice president has been in elevating the importance of U.S. relations with the countries of Asia and the Pacific, including Japan. Shintaro Abe, secretary general of the Liberal Democratic Party and

Considerable changes also are in store on the House Armed Services Committee. Two senior members are retiring -- Samuel Stratton (D, N.Y.), chairman of the armed services procurement and military nuclear systems subcommittee, and Robert Badham (R, Calif.), the subcommittee's ranking minority member -- and it is unclear who will take their place. Additionally, Mac Sweeney (R, Tex.) and Jack Davis (R, Ill.) were both defeated, leaving a total of four vacancies on the committee.

Foreign direct investment is among the issues important to Japan that the 101st Congress is likely to take up when it convenes in January. Concern about foreign investment in the United States and popular support for the idea of registration of foreign owners are likely to once again coalesce into a disclosure bill similar to the one passed by the House in early October but not acted on in the Senate.

On top of the speculation about replacements on Capitol Hill, Mike Mansfield announced November 14 that he was resigning after serving as U.S. ambassador to Japan since 1977. No possible replacements had been mentioned by President-elect George Bush's transition team at JEI press time.

Gretchen Green

Oil Price Fall Has Ups And Downs

The price of crude oil on world commodity markets always has had a major influence on the Japanese economy because of its near-total dependence on imported energy. Weak prices for crude have been one factor contributing to the economy's successful adjustment to the stronger yen over the past three years. With the Organization of Petroleum Exporting Countries unable to enforce ceilings on crude oil output by members, prices have gyrated wildly in recent months while falling to lower levels. While reduced oil prices will help business profits, hold inflation down and keep the economy growing, some government energy planners are concerned about the long-term impact on energy conservation efforts.

OPEC has had a daily production ceiling of just under 15.1 million barrels a day for its members since 1986 with one glaring exception. Iraq has refused to accept a quota substantially lower than its nemesis Iran and has been pumping an estimated 2.6 million barrels a day from its wells, far above the 1.5 million barrel mark it agreed to in 1986. A free-for-all broke out this summer when top producer Saudi Arabia announced that it would no longer cut its output (and suffer reduced revenues) to compensate for overproduction by other OPEC members. Spot benchmark prices plunged from the \$15 range to between \$10 and \$11 a barrel and have seesawed since then as OPEC ministers have tried to patch together a unified production schedule. Current OPEC output is in the neighborhood of 21 million barrels a day, and current prices are well below the target level of \$18 a barrel.

Japanese oil buyers have had a field day with the OPEC price war. According to Ministry of Finance data, the yen price of crude oil has declined during 1988 with minor interruptions (see Table). Even in recent months when the yen weakened a little against the dollar, the price of oil has declined from Japan's standpoint. For many Japanese corporations, the continued drop

will fatten resurgent profits. Energy-intensive industries (including ones that do not rely on oil as a major source, such as steel) expect fuel bills to be slashed by as much as Y600 million (\$4.8 million at Y125=\$1.00) per company if OPEC fails to come to an agreement. Oil refiners and utilities expect even larger gains. For example, Tokyo Electric Power Co., Inc. saves Y22 billion (\$176 million) for every dollar fall in the price of oil.

Japanese Crude Oil Imports

(c.i.f. basis)

	<u>Volume</u> <u>(1,000 kl)</u>	<u>Value</u> <u>(\$1,000,000)</u>	<u>Dollars per</u> <u>Barrel</u>	<u>Yen per</u> <u>Kiloliter</u>	<u>Yen/Dollar</u> <u>Exchange Rate</u>
1987					
August	13,900	\$1,591	\$18.20	Y17,265	Y150.83
September	14,384	1,664	18.39	16,543	143.02
October	15,102	1,747	18.39	16,543	144.59
November	17,288	2,017	18.40	16,029	138.52
December	17,288	2,002	18.41	15,361	132.65
1988					
January	17,052	1,952	18.20	14,423	123.01
February	18,079	2,024	17.80	14,393	128.57
March	16,030	1,768	17.54	14,200	128.72
April	16,311	1,706	16.62	13,137	125.64
May	14,673	1,488	16.12	12,649	124.76
June	15,432	1,585	16.33	12,863	125.23
July	17,894	1,796	15.95	13,186	131.40
August	14,038	1,339	15.17	12,699	133.12
September	12,566	1,167	14.77	12,461	134.21

Source: Ministry of Finance

The Bank of Japan and the Economic Planning Agency also gladly welcome weaker oil prices. According to BOJ, a dollar drop in crude prices pushes Japanese wholesale prices down 0.2 percent. As domestic demand has become the focus of economic growth, worries over inflation have risen. Many observers feared that BOJ will be forced to rein in money supply growth by raising interest rates to cool inflationary pressures. Lower oil prices will reduce the pressure and give BOJ more room to maneuver. EPA also feels that lower oil prices will yield a net gain for the economy, but benefits from recent price declines will not begin to appear until late 1989 -- too late to influence this fiscal year's economic performance.

The Ministry of International Trade and Industry is less sanguine about the situation. One factor that has helped Japan grow in the 1970s and 1980s is a policy of strict conservation and diversification of energy sources. MITI planners are concerned not so much that overall energy imports have climbed so far this year, but that the energy efficiency of the economy seems to be decreasing (see JEI Report No. 36B, September 23, 1988). MITI and oil industry

leaders also are not happy with the wild price swings of the past few months. Even if the trend is downward, large price fluctuations complicate planning by both MITI and businesses.

Of equal concern to Tokyo is the impact of falling energy prices on exports. Lower input costs may enhance the competitive position of Japanese firms, causing many to continue to focus on exporting and delay restructuring to meet domestic demand. From a more basic viewpoint, lower oil prices reduce the value of total imports and widen Japan's trade surplus. For two straight months Tokyo has laid the blame for an increasing monthly surplus directly on lower prices for crude. If prices remain depressed, Tokyo is worried that more competitive exporters and lower import bills will push up the annual trade surplus and rekindle trade tensions.

Although unable to forge a consensus in mid-October meetings, OPEC ministers report progress toward a solution as they prepare for a November 21 semiannual meeting. The compromise would involve setting identical ceilings for Iran and Iraq at 2.4 million barrels a day, setting an overall OPEC output ceiling of 17.5 million barrels a day, and lowering the target price to \$15 a barrel. The main stumbling block to this plan is Iran's resistance to equality for Iraq. If an agreement is not reached, however, Iraq will be in a position to raise output to well over 3 million barrels a day by mid-1989. With current world demand hovering in the 18 to 19 million barrel a day range, such an increase would be a disaster for OPEC discipline but a boon to oil-importing nations. The November 21 OPEC meeting will be watched with extraordinary interest in Tokyo and elsewhere.

Jon Choy

Guessing The Future Of Japan's Car Export Limits

Will Tokyo finally scrap the quotas on Japan's U.S.-bound car shipments when the eighth year of restraints ends in March 1989? That looks like a safe bet. After all, exports, which fell 3.7 percent short of the 2.3-million-unit shipment ceiling in FY 1987, have been running well behind year-earlier totals since the start of FY 1988. At 1,074,367 sedans and hatchbacks through September, exports were down 13.8 percent from the April-September 1987 number and off 6.6 percent from the pace needed to reach the annual export limit. The decline in shipments, in short, has become an "established trend" -- the condition International Trade and Industry Minister Hajime Tamura set last January for the elimination of the quotas (see JEI Report No. 6B, February 12, 1988).

Odds makers in the United States and Japan also think the political timing is right. Since one of the Reagan White House's first major foreign economic policy moves was to maneuver Tokyo into restricting car exports, the coming change in administrations gives Japan a unique window of opportunity to end the controls. The fact that the huge bilateral trade deficit is shrinking at last helps as well. Moreover, the U.S. Big Three automakers are expected to earn record profits in 1988. Earnings in the first three quarters added up to \$8.2 billion, nearly \$0.9 billion more than in the comparable 1987 period and within range of 1984's all-time-high profits of \$9.8 billion.

But an end to the export restraints is not a foregone conclusion. For one thing, U.S. sales of Japanese nameplates, both imported and domestically